

South Africa

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:			♦ Voluntary defined-benefit or defined-contribution funds
Financing:			♦ Employer between 7.5 and 10 percent ♦ Employees between 6.5 and 7.5 percent
Coverage:			♦ Participating employees
Eligibility:			♦ Individuals between the age of 63 and 65 years

Challenges Facing Pension System

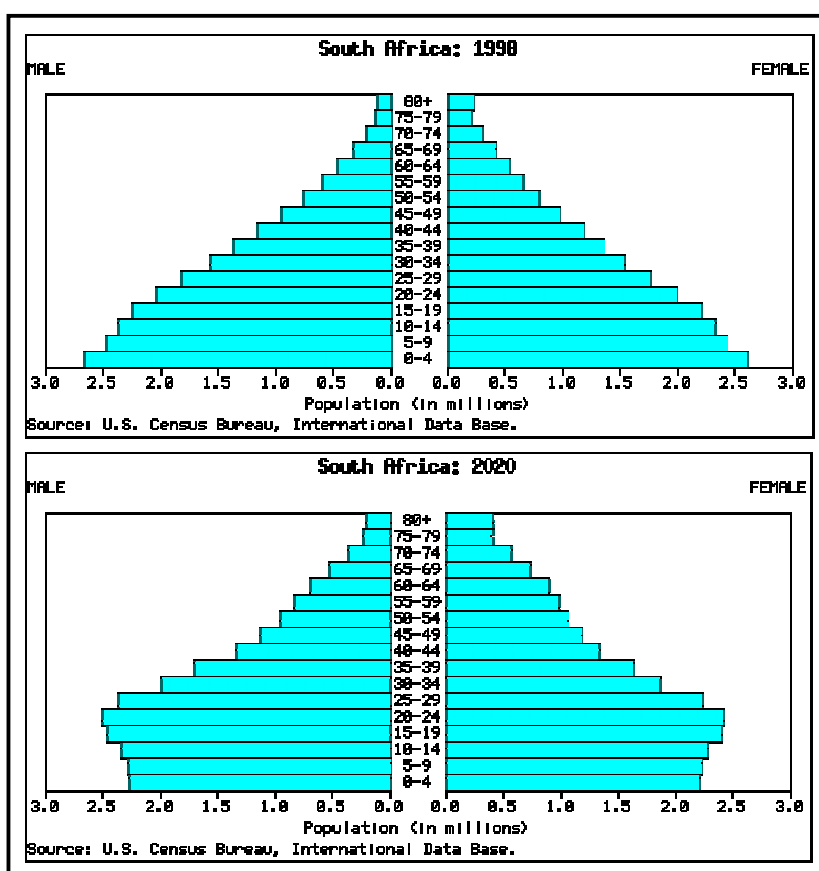
- ☐ Economic fluctuations
- ☐ Non-resident/illegal pension registration
- ☐ Low level of social security

Summary of Current Pension System

Individuals in South Africa have been traditionally expected to provide for their own retirement. The South African government provides social and old age pension benefits primarily for the destitute, child welfare recipients, and retirees with limited means. General revenues from the central budget finance these benefits. Following the introduction of the Social Assistance Act of 1992, the social security benefits that were established under separate legislative initiatives were consolidated in one law. The benefits incorporated in the Social Assistance Act include old age, war veterans' pensions, and disability pensions.

To qualify for old-age benefits, individuals must be (1) South African citizens or satisfy residency requirements; and, (2) at least 65 and 60 years of age for men and women, respectively. They must also pass a means test, where their income and assets determine the amount of their pension benefit. Although females may currently apply for pension benefits at age 60, the retirement age for women will be gradually increased to 65 years over the next ten-year period (due to gender equalizing legislation passed in the Social Assistance Act).

Social pensions are distributed only to disabled individuals or destitute widows who are South African citizens. Under the Social Assistance Act, non-citizen residents who have been living in South Africa for more than five years are no longer eligible for social pensions.



In addition to the government's social assistance program, employers in the formal sector provide employees the opportunity to invest in occupational pensions or provident funds for retirement. The most prevalent pension plans offered by employers are defined-contribution plans. The average retirement age generally ranges between 63 and 65 years. Employee contributions generally range from 6.5 percent to 7.5 percent of salary, while employer contributions may be between 7.5 percent and 10.0 percent of payroll. For defined-contribution plans, pension accrual is generally 2 percent of final average salary over the past one to two years. For

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SELECTED INDICATORS

Demographic	Year	
	1998	2020
Total Population (in thousands)	42,835	48,983
Life Expectancy at Birth (Years)	55.65	51.91
Total Fertility Rate (Child Born per Woman)	3.16	2.16
Age Dependency Ratio	11.7	16.4
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	2.1	0.5

Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) ¹	7,450
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	2.9
GNP Per Capita (in PPP) ¹	280.4
Inflation Rate (percent) ²	7.4
Labor Force Participation Rate (percent) ³	39.3
Unemployment Rate (percent) ³	5.1

Source: ¹World Bank; ²IMF; ³International Labour Office.

Pension	1997
System Dependency Ratio 1996 (percent)	n/a
Employee Contribution for Pensions (percent of earnings) ¹	None
Employer Contribution for Pensions (percent of payroll) ¹	None
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)	n/a

Source: ¹U.S. Social Security Administration.

defined-contribution plans, pension benefits are determined by employer and employee contributions plus accrued interest.

Challenges Facing Pension System

South Africa has endured much economic and political turmoil, which continues to strain on the social assistance system. With more than 40 percent of the poor and 50 percent of very poor individuals depending on social assistance, there is increasing pressure on the government to provide additional benefits. Social grants had increased by 4.3 percent in May 1998 from the previous year, which did not cover the full increase in prices. In 1995/96, \$2.7 billion was spent on social welfare, and in 1997/98 spending increased to over \$3.7 billion; the welfare budget is expected to reach almost \$4.2 billion in 2000/01. In contrast, South Africa's growth rate decreased to 3.0 percent (from 3.3 percent) in 1995, while inflation was 7.5 percent. In addition to the impact of economic fluctuations, the influx of non-resident and illegal retirees from neighboring Swaziland and Mozambique is creating a pension shortfall despite an increase to the pension budget.

Pension Reform Efforts

Much of the activity with pension reform has concentrated on private occupational or provident fund schemes sponsored by employers. The South African government has introduced modifications to the Pension Fund Amendment Act of 1996. All funds registered on or before April 19, 1997 must assign at

least four board members to the board of management. This modification allows pension fund members more representation on the pension fund boards.

To improve the financial viability of benefit provision, and limit the financial strain of providing benefits for those on social assistance, the government introduced new measures in its 1998/99 budget. As of March 1, 1998, dividends received from retirement funds are subject to a higher tax. The tax rate increased from 17 percent to 25 percent.

The Government of South Africa has also incorporated various income redistribution aspects in the 1998/99 budget such as increasing in old-age, disability and care dependency grants (from R470 to R490 per month), and establishing an R2660 rebate for individuals 65 years or older. South Africa's parliament committee is currently introducing efforts to eliminate the social maintenance grant, where savings would be re-directed to social services and welfare programs.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems			
Formulation of proposals			
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			